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SUBJECT: ECONOMIC POLICY IN CANADA'S ELECTION CAMPAIGN

REF: 04 OTTAWA 1371 (2004 CAMPAIGN)

SUMMARY/INTRODUCTION

1. While the governing Liberal Party has highlighted its own strong economic record, and while both they and the leading Conservative Party have made various spending promises, economic policies have been less significant in this campaign than other issues such as crime and political corruption. Business groups give roughly equal grades to the two major parties' economic platforms.

2. The Conservatives have promised to cut taxes, specifically the GST (the federal value-added-type sales tax), and would downplay the Kyoto Accord in favor of a "made in Canada" climate change policy, but otherwise, there is little reason to expect sharp changes in specific economic policies under a new government. Of greater importance is the Conservatives' commitment to respect provincial jurisdiction, which could imply significant adjustment of the federal government's role in Canadian economic life. This meshes with the agendas, not just of the Bloc Quebecois, but also of most provincial governments.

END SUMMARY

NDP FOCUS ON HEALTH CARE

3. Of the four parties in Parliament, only the social-democratic New Democratic Party (NDP) has put a sustained spotlight on one economic issue in this campaign. The NDP, which has its core support in public sector unions, has consistently attacked what it calls "privatization" in Canada's single-payer health care system. Health care was an important issue in the 2004 campaign (reftel), with all parties vowing somehow to "strengthen" the system, but in the current race, the other parties have not ventured much beyond their previous stances.

LIBERAL ECONOMIC RECORD UNCHALLENGED

4. The Conservative Party's traditional economic policy mantras from the Mulroney era (1984-93) -- trade liberalization, tax reform, and balanced budgets -- were effectively adopted by the Liberals after they took office in 1993. (While the Mulroney team had succeeded with the first two goals, and backed the central bank's successful struggle with inflation, they never gained control of the fiscal deficit). Losing these campaign planks contributed to the Conservatives' internal crises over the past decade. Even now, while they criticize many of the Liberals' policies and priorities, the Conservatives (and the smaller parties) generally do not attack the Liberal macroeconomic record.

SIMILAR GRADES FROM BUSINESS GROUPS

5. Major business groups and most observers rate the two major parties' economic platforms similarly in the current race. The Canadian Chamber of Commerce's campaign scorecard (see www.chamber.ca) rates both parties "poor" on international trade but "good" on workforce strategies; it credits the Liberals with being somewhat better on fiscal policy and innovation, and the Conservatives somewhat better on energy/environment and health care.

CONSERVATIVES WOULD RETREAT FROM KYOTO ACCORD

16. One key point of difference is that the Conservatives admit that the Kyoto Accord is unworkable, and also argue that it intrudes on provincial jurisdiction. Instead, they would begin consultations with provincial governments to develop a new plan for reducing Canada's greenhouse gas emissions. The Conservatives say that an international replacement for Kyoto should include the United States, China and India.

DECENTRALIZING THEME HAS WIDE IMPLICATIONS

17. The Conservative Party's call on the GOC to focus on its own constitutional responsibilities and respect provincial jurisdiction is long-standing and would have implications in many areas, from natural resources to health care. While this may be the theme which would most affect Canadian economic policy under a Conservative government, it has not been highlighted in the current campaign.

A MINORITY GOVERNMENT COULD SPELL BUDGET TROUBLE

18. Because a minority government is a likely outcome from this election, and such governments usually look for Parliamentary support among members from the smaller parties (both of which are left-leaning), the next government will probably face strong upward pressure on spending. Combined with a heritage of large spending and transfer commitments made by the GOC over the past two years (such as on health care), and the possibility of a macroeconomic slowdown in North America, this poses a real risk that Canada's years of federal fiscal surpluses may be drawing to a close.

19. This risk might further increase under the Conservatives if they act on their promises to cut taxes. Indeed, the Conservatives have also made a range of spending promises during the campaign, prompting the Liberals to call their fiscal plan (though it is approved by major economists) incompetent and under-funded by C\$22 billion.

WILKINS